A STUDY OF CO -INTEGRATION BETWEEN GOVERNMENT TAX REVENUES AND GOVERNMENT EXPENDITURES IN INDIA

A

Synopsis

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INTRODUCTION:

Taxes are an important source of government revenue and the most reliable source of government funding. Tax aid has become a significant tool to boost the economic growth of any economy. In fact, taxation policy itself is a fundamental element for economic policies, ensuring that countries are able to maintain and improve its global competitiveness and to expand. Total government revenue is derived from two sources, which can be classified as tax revenue, and non-tax revenue. Government tax revenues are broadly classified into Direct Tax and Indirect tax. Direct tax revenue consists of income tax from individuals, companies, and other persons as well as stamp duty, estate duty and real property gains. Indirect taxes consist of import duties, export duties, excise duties, sales tax and service tax. Indirect taxes are not imposed directly on the taxpayer but are also a major source of contribution to government revenue. Non-tax revenues consist of fees for issue of licenses and permits, fees for specific services, proceeds from the sale of government assets, rental of government property, bank interest, returns from government investments and forfeitures. Taxes are the greatest source of revenue for any government for the running of its procedure. The total tax revenue during the last decades (2004-2014) was 54142.70 crore out of which 70.12 percent were indirect taxes and remaining from direct taxes. These revenues in the terms of Government expenditures play an important role to achieve the major economic goals of growth, stability. Government expenditure is the expenditure incurred by public authorities like central, state and local government to satisfy the collective social wants of people. Government expenditure is divided into two categories: Revenue Expenditure and Capital Expenditure. Revenue Expenditure is for the normal day to day running of government department and various services, interest charged on debt charged by government subsidies. Revenue expenditure covers all the expenditure that does not create assets such as Common

Defence, Education, Health and Safety, Legal and Judicial System etc while Capital Expenditure comprises of expenditures on acquisition of assets like land, building, investments in shares and loans and advances granted by government. Thus, the total expenditure of the central government has been continuously growing and revenue expenditure has grown at higher rate as compared to capital expenditure. The total expenditure reached to the level of Rs. 98063.07 Crore in last decade, out of which Rs.88861.77 crore was revenue expenditure. The main aspect for sharp increase in revenue expenditure of the central government from 2004-2014 was the rapid increase in subsidies. Thereafter, the substantial increase was due to hike of expenditure on items like defence, interest payments and grants and loans. This created serious imbalances in the fiscal sector of the economy. As far as Indian economy is concerned, it is greatly affected by the fiscal deficit because the total expenditure of the country is always exceeding to the revenue of the country. The current position of fiscal deficit in India during the period of March 2014 was 3.69 trillion rupees ($81.9 billion), the deficit is equivalent to 4 percent of India's gross domestic product and fiscal deficit is continuously growing in a fluctuating way till 2011 to 2014, which augment the risk of imbalances in the country In this regard there are some statistical figures which depicts the alarming position of fiscal deficit in India during the period of 2011 to 2014 was (5.9% of GDP in 2011-12, 4.9% of GDP in 2012-13, 4.5% of GDP in 2013-14 and 4% of GDP 2014-15). The main reasons behind the deficit are Subsidies which are provided by the government in various consumables like Oil, Gas, Food and interest paid by the government on both the domestic and foreign loans. Thus, the co-integration between government expenditures and revenues has important public policy implications because the controls of the size of the government and budget and fiscal deficits are dependent on the relationship between these variables. It is important to understand the causality between taxes collection and expenditures. In particular, in order to determine

which variable should be given chronological priority, one basically has to know whether changes in expenditures proceed, follow, are independent of or occur simultaneously with changes in taxes. It could be a one-way causality from spending (revenue) to revenue (spending), i.e. "tax-and-spend" ("spend-and-tax") causality, two-way causality or no causality between revenue and spending which could give critical inputs in shaping the fiscal consolidation strategy. There are various reasons to establish the nature of link between government expenditure and revenue. First, if the "revenue-and-spend" principle holds true, budget deficits can be avoided by implementing policies that stimulate government revenue. Second, if the "spend-revenue" principle holds true, then government spends first and pay for this spending later by raising revenues. Third, if bi-directional causality does not hold, then government revenue decisions are made independently from government expenditure decisions are made independently from government expenditure decisions.

REVIEW OF LITERATURE:

Friedman (1972) supports the view that increasing taxes would lead to higher level of government expenditures. According to him the direction of causality runs from tax revenue to government expenditures. Barro (1974), Peacock and Wiseman (1979) supported that the increase in taxes and borrowings are due to an increase in government expenditures. According to them a country decides how much to spend and then finds the resources to finance this spending.

The linkage between government revenue and expenditure has an impact on fiscal deficit. The studies available in this area indicate that there exist a unidirectional causality between revenue and expenditure for all lag structure except for short lag structure. For the shortest lag structure there exists bidirectional causality (Manage and Hiarlow, 1986). However in case of GCC countries evidence of unidirectional causality has been found. The effectiveness

of the fiscal policy for GCC Countries could be enhanced by making budget expenditure less driven by available revenue (Fasano and Wang, 2002).

A bidirectional existence of causality relationship between government revenue and expenditure is reported to be in China (Xiaoming, 2001).Similarly, the studies such as (Mosayeb et.al; 2011), (Chang and Chiang, 2009) also exhibited a bidirectional causality nexus between government revenue and expenditure in both the long as well as in short term relationship. The OECD Countries basically supports bi-directional as the dominant pattern of causality between government revenue and expenditure (Ashan et.al; 1989) followed by (Yashobanta Parida 2012) supports the long run bidirectional causality between revenues and expenditures in India.

In Thailand the relationship between government expenditure and economic growth have not co integrated and seeks the uni-directional relationships, as causality runs from government expenditures to growth. However, in case of OECD countries have indicated a uni-directional relationship between government expenditure and economic growth (Komain J. Brahmasrene T, 2007)

A one way long run relationship has been found in Iran between government revenue and expenditure (Seyyed Kazemi, 2012). Similar a unidirectional relationship have also been found in Pakistan, Malaysia and Korea Countries where government follows spend and tax and tax and spend principle.(M. Haider Hussain,2005; wan park ,1998.)

Some African countries, (Nyamongo et al. 2007) found a bidirectional relationship in the long run, indicating fiscal synchronisation principle between revenue and expenditure followed by (Aregbeyen and Ibrahim 2012) along their supports the tax-spend hypothesis for the Nigerian economy, Although (Amoah and Loloh, 2008) supports unidirectional causality between revenue and expenditure (tax and spend) principle in the short run for Ghana economy.

NEED OF THE STUDY:

The various studies focused upon the unidirectional and bidirectional relationship between government revenues and expenditures in various countries. There is no such study which has made an attempt to analyse the relationship between government tax revenues and public expenditures which can focus upon in bringing about tax reforms and simplifications of tax structure. The study has focused upon the change in their relationship due to the change in the tax reforms and also the factors that affect the government tax revenues and expenditures. These gaps have enabled the need to carry out the study entitled with the following objectives.

OBJECTIVES OF THE STUDY:

This study will be conducted to achieve the following objectives:

- To carry out a trend analysis of Government Tax Revenues and Expenditures.
- To identify the impact of factors influencing Government Tax Revenues and Expenditures
- To analyse the relationship between Governments Tax Revenues and Expenditures.
- To examine the perception of respondents as regard to Government Tax Revenues and Expenditures decisions with reference to India.

RESEARCH METHODOLOGY:

- **Research Design**

The research design for the study will be descriptive as well as analytical in order to meet out with specific objectives.

- **Sample Size**

The study will be restricted to the Indian context.

- **Duration of the Study**

For the purpose of analysis the data of financial years viz 2000-2001 to 2015-2016 will be taken in to consideration.

- **Data Collection**

Primary Data: Primary Data will be collected through the questionnaire from at least 100 respondents. These respondents all include government officials, academicians and people working in the areas.

Secondary Data: Secondar**y** Data will be collected through various publications of Ministry of Finance, Reserve Bank of India (RBI), websites, journals, magazines and books.

- **Statistical Tools**

For the analysis of data various statistical tools Viz Granger Causality Test, Factor Analysis and Co-integration will be applied. Few other statistical and financial tools may be adopted during the course of the study.

- **Hypotheses**

The following Research questions and hypothesis will be examined during the course of study.

Ho$_{-1}$*:* There is no significant effect of Government Tax Revenue on Public Expenditure.

$\mathbf{H_{O\text{-}2}}$*:* Collection of tax revenue has no significant relationship with public expenditure.

The Researcher Will Use the Following Specific Research Methodology

S.No	Objectives	Research Methodology
1.	To carry out trend analysis of Government Tax Revenues and Expenditures	To achieve this objective a trend analysis will be conducted by using the budgeted and actual data of the relevant period
2.	To identify the impact of factors influencing Government Tax Revenues and Expenditures	To achieve this objective the various heads of government expenditure and sources of tax revenue will be analysed.
3.	To analysis the relationship between Government Tax Revenues and Expenditures	To accomplish this objective, Granger Causality, Co integration test techniques will be used according to need of the study and to identify any changes in relationship between tax revenues and public expenditures due to process of reforms.
4.	To examine the perception of respondent as regard to Government Tax Revenues and Expenditures decisions with reference to India	To achieve this objective, a questionnaire will be sent to at least 100 respondents i.e. 20 Members related to Ministry of Finance, 50 respondents related to financial analysis and 30 academicians.

PROPOSED CHAPTER PLAN

Chapter Number	**Chapter Name**
Chapter-1	Introduction.
Chapter-2	Trend analysis of government tax revenues and expenditures.
Chapter-3	Impact of factors influencing government tax revenues and expenditures.
Chapter-4	Co-integration between government tax revenues and expenditures.
Chapter-5	Perception of respondents as regard to government tax revenues and expenditures decisions with reference to India.
Chapter-6	Findings, Conclusion and Suggestions.

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